European Economic and Social Committee

OPINION

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A Digital Euro

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[own-initiative opinion]

ECO/580

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Plenary Assembly decision	28/01/2022
Legal basis	Rule 52(2) of the Rules of Procedure Own-initiative opinion
Section responsible	Economic and Monetary Union and Economic and Social Cohesion
Adopted in section	06/10/2022
Adopted at plenary	26/10/2022
Plenary session No	573
Outcome of vote (for/against/abstentions)	183/1/1

1. Conclusions and recommendations

1.1 The rapid process of technological innovation in the financial sector has led to the gradual development of digital currencies by central banks around the world. Like other central banks worldwide, the European Central Bank (ECB-Eurosystem) adopted a decision in July 2021 to launch an "investigation phase" ahead of the possible introduction of a digital euro. The EESC is pleased that the ECB is continuing to work towards the introduction of a digital euro. Currently, the ECB-Eurosystem is taking a step-by-step approach towards the adoption of a digital euro, which is following a set time line. However, a decision on whether to adopt a digital euro has not yet been taken.

1.2 The EESC considers financial and digital inclusiveness to be very important in the introduction of the digital euro. Thus, it expects that the digital euro will benefit everyone in the euro area. The digital euro should enable payment transactions to be carried out more quickly and more efficiently.

1.3 The EESC notes that the digital euro will constitute a new form of money. In this regard, it stresses that while all of the positive aspects and opportunities offered must be taken into account when considering its adoption, all of the potential risks must also be pointed out, especially in relation to the financial sector. Therefore, the monitoring, supervision and management of the potential risks involved will need to be taken into account when designing the digital euro.

1.4 The EESC considers financial stability to be one of the key issues when moving towards the introduction of a digital euro. Therefore, as it moves forward, it will be important that the ECB takes all necessary measures in the area of supervision to counter unlawful transactions, particularly for the purposes of money laundering and terrorist financing (AML/CFT), as well as to combat cyber attacks.

1.5 As preparations are made for the possible introduction of a digital euro, the EESC sees scope for making the payment system more efficient and competitive. The digital euro could reduce risk while promoting financial stability.

1.6 The EESC supports the steps taken by the ECB-Eurosystem towards the introduction of a digital euro. Given that this is a very complex project that is also strongly influenced by the current dynamic development of innovative technologies, it will be important that the ECB sets out various design options. Accordingly, it will be important to enable both online and offline transactions. Furthermore, in cross-border payment transactions, systems will need to be compatible with each other.

1.7 The EESC is closely monitoring the ECB's work on adopting a digital euro and will continue to do so. It will therefore be important that, as the decision-making process at ECB-Eurosystem level moves forward, all substantive and systemic measures are taken to select the most appropriate model that ensures financial inclusiveness, financial stability and privacy. The ECB is currently exploring and reviewing various design options.

1.8 Given that this is a complex and particularly demanding project, which concerns every resident of the Member States of the European Union, the EESC stresses the need for civil society to be involved in the next stages of preparations, negotiations and discussions on the introduction of a digital euro.

2. General comments

2.1 The continuing evolution of technology is leading to rapid digitalisation across all sectors of the economy, including the overarching social structure. The rapid development and impact of technological innovation can also be seen in the financial sector and in institutions providing payment services. The rapid process of digitalisation is also continuing in the public sector.

2.2 Central banks around the world are currently discussing and deciding on whether to introduce a central bank digital currency (CBDC). At this point, the central banks of the Bahamas and Nigeria have adopted a digital currency as legal tender. In addition, more than 110 countries around the world are exploring the possibility of introducing a digital currency.

2.3 As the first G20 state to do so, the People's Republic of China[1] has successfully launched a digital currency project, which is so far not interlinked with other central banks around the world. In January 2022, the US Federal Reserve System published a study on the advantages and disadvantages of introducing a digital dollar.

2.4 Some 90% of central banks, accounting for 95% of global GDP, are currently in the process of considering the adoption of a digital currency[2]. Around half of the world's central banks are developing or carrying out specific trials in relation to the introduction of CBDCs. Moreover, two thirds of central banks intend to introduce a CBDC for retail transactions in the short or medium term.

2.5 There is general agreement that lower costs and more efficient, faster and more secure payment transactions can be expected following the introduction of digital currencies by central banks.

2.6 This process of central banks adopting digital currencies is linked to the dynamic developments in the cryptocurrency market. Furthermore, the emergence and rapid spread of COVID-19 has further accelerated this digitalisation process.

2.7 When making decisions on introducing central bank digital currencies, it will be important to take into account the impact of such a move on macro-financial stability. States that have decided to adopt and potentially implement digital currencies are expected to see significant benefits, not only in terms of speed, efficiency, and volume of operations, but also in respect of the uninterrupted functioning of the payment and settlement system.

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1 China launched a digital yuan project back in 2014, and the currency was in use during the Winter Olympic Games in 2022. So far, the digital yuan has been used only on Chinese territory.

2 For more information, see: https://news.bitcoin.com/105-countries-are-exploring-central-bank-digital-currencies-cbdc-tracker-shows/.

2.8 The introduction of a digital euro by the European Central Bank (ECB) should be aimed at preserving the role of public money as the anchor of the payments system, and also contribute to European strategic autonomy and economic efficiency. In addition, it should contribute to a fairer, more diverse, and more resilient European retail payments market, while ensuring a high degree of privacy and security. The Eurosystem is indeed committed to enabling high privacy standards. However, higher levels of privacy than current payments solutions would need to be integrated into the regulatory framework.

3. Main comments

3.1 The EESC points out that the ECB should be focused on reducing and eliminating potential risks, when moving towards the introduction of a digital euro. As to the digital euro itself, there are several models under discussion, including models based on third-party validation and peer-to-peer validation and with offline or online functionality[3].

3.2 The EESC expects to see the ECB's strategy for adopting a digital euro involve an examination of the risks involved of every kind and a focus on taking measures to eliminate the potential risks.

3.3 The EESC stresses that the ECB's plans to introduce a digital euro should also focus on maintaining financial stability and ensuring a smooth monetary transition. Therefore, further in-depth analyses of the different design features of a digital euro will be important, including in relation to the future impact of the digital euro on macro-financial stability.

3.4 The EESC expects that the process of technological development will also need to take into account other possible risks associated with this process. The ECB's digital euro strategy will thus face two challenges, namely ensuring financial stability and smooth monetary policy transition on the one hand, and ensuring a dynamic process of technological development and innovation on the other hand.

3.5 The EESC expects that all necessary measures against terrorist financing and other illegal operations will need to be taken when foreign payments are made[4]. In this regard, the EESC sees considerable scope for mutually beneficial international cooperation and coordination between central banks and international monetary-financial and economic institutions[5].

3.6 The EESC notes that when assessing the different forms of money, the functions they perform should be considered, i.e. the functions of store of value, unit of account, and medium of exchange. A digital euro should be mainly used as a means of payment and not become an

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3 For more information, see: https://www.ecb.europa.eu/paym/digital_euro/investigation/governance/shared/files/ecb.degov220504_magdesignfeatures.en.pdf?2e15ee7911b93a720fbdebe09cfa1a79.

4 More information can be found in the latest EESC opinion on the subject, on the *Anti-money laundering legislative package*, OJ C 152, 6.4.2022, p. 89.

5 The following institutions are most closely involved in the process of introducing a central bank digital currency: the International Monetary Fund, the Bank for International Settlements, the World Bank, and other public and private monetary-financial and economic institutions.

instrument for financial investments, in order to avoid negative consequences for the financial sector.

3.7 The EESC considers that, in order to achieve the maximum effect as regards this payment function, it will be important that the supply of funds is sufficient and free from any restrictions. The EESC also points out that, in reciprocal payment and settlement relations, it will be important for both natural and legal persons to be accepted. However, there will need to be tools in place to prevent the digital euro from being used for investment purposes[6].

3.8 The EESC expects that the ECB will have to grapple with certain challenges when considering the introduction of a digital euro, in particular as regards the security of payments, their efficiency, financial inclusiveness, including financial stability and monetary policy transmission, etc. Private sector corporations' plans to introduce digital currencies have accelerated CBDC projects. It is very important that the ECB anticipates further competition from private-sector digital currencies[7].

3.9 The EESC points out that it will be important for the ECB to decide how to establish the conditions to prevent a potential market failure. Moreover, it will also be necessary to determine how to deal with private banks, as well as financial institutions providing domestic and foreign payment services. The ECB will therefore have an important decision to make at the preparatory stage as to which CBDC model to opt for.

3.10 As of now, these are the recognised models for central bank digital currencies: the direct model, the indirect model, the intermediated model and the hybrid model. Furthermore, the EESC points out that one of the biggest challenges in deploying one of the possible models for the ECB's digital currency will be the interoperability between central banks[8].

3.11 The EESC would expect that cross-border payment systems for retail transactions using the digital euro will be sufficiently fast, lower cost, more transparent, more secure and much more accessible.

3.12 The EESC stresses that the interconnection of retail payments will make it easier for individual transactions to be carried out under the different models adopted by the individual central banks when introducing the digital euro. The better the interoperability between payment service providers, the greater the satisfaction of users and service providers.

3.13 The EESC envisages the digital euro as a new form of money. Technological innovation is leading to two forms of digital currency, namely (a) central bank digital assets and (b) private digital assets. Here, account must be taken not only of potential competition, but also of the

6 For more information, see: https://www.ecb.europa.eu/paym/digital_euro/investigation/governance/shared/files/ecb.degov220711_tools.en.pdf?fb2430528d8f964513dd66ffcd8cbaf7.

7 Private digital currencies (cryptocurrencies) can compete with central bank digital currencies. Since the global financial crisis, there has been a significant rise in private digital currencies.

8 When linking up different models of cross-border payment systems, it is important that they are compatible with each other.

status of the digital euro in international monetary relations, as the second most important reserve currency.

4. Specific recommendations

4.1 The EESC points out that if a digital euro is introduced, the ECB, in cooperation with commercial banks, will ensure that cash continues to be provided and can still be used in retail operations[9].

4.2 The EESC points out that the ECB should monitor all potential risks. "Stablecoin" will be one important measure for ensuring the stability of the currency in the blockchain[10]. It will thus be important to specify how the ECB will deal with this form of digital currency – stablecoin – which could also be linked to the digital euro.

4.3 The EESC stresses that cash will remain very important for the inclusiveness of a currency. Certain sections of society – especially older and financially vulnerable people – do not always have access to digital accounts and credit cards. For them, cash is the only means of payment. Besides, cash is a protection against excessive intrusiveness into the private sphere of citizens. The increasing volume of banknotes in the economy is proof of the trust in this form of money, probably also after and because of the financial crisis of 2008.

4.4 The EESC notes that currently almost all of the central banks in the world that have adopted a strategy for introducing a central bank digital currency are seeking to establish and are testing out the form, system, design and model of their future digital currencies.

4.5 The EESC sees the dilemma facing the ECB as a result of the process of technological innovation[11] in how to continue with the process of digitalising the euro that is under way, ensuring links with other central bank digital currencies, while also ensuring financial inclusiveness, and macroeconomic and financial stability.

4.6 The EESC expects that the introduction of a digital euro is not envisaged as resolving all issues related to the evolving technological revolution. A significant decrease in cash payment methods can be expected. Furthermore, the issue of monetary sovereignty will need to be addressed, not least supporting the digitalisation process linked to foreign payments and transfers, including tackling the key issue of financial inclusion. These are all open questions that the ECB still faces today.

4.7 The EESC notes that there cannot be a one-size-fits-all approach to a digital euro for all Member States, as there are national differences. Therefore, in the transition to a digital euro,

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9 For more information, see the previous EESC opinion on a *Retail Payments Strategy for the EU*, OJ C 220, 9.6.2021, p. 72.

10 Stablecoin is a fixed-price cryptocurrency whose market value is attached to other assets. Unlike other cryptocurrencies, such as bitcoin, stablecoin can be pegged to assets such as certain reserves or convertible currencies that can be traded on exchanges, including the US dollar or the euro.

11 The technological development here is based on a process of decentralising finance, as with the experiments being carried out by the big technology firms, for example. Diem/Libra and the introduction of the e-CNY are the result of a revolutionary technological process.

the scope for its use in each country will need to be the primary consideration. The digital euro will be offered to all euro-area citizens, just as cash is offered to all euro-area citizens, regardless of their country. Its use may differ depending on the habits and norms of the individual countries.

4.8 The EESC understands that when seeking to shape the different features of the introduction of the digital euro, it will be important to take particular account of privacy conditions as well as of the timing of the market launch. It will also be important to use the current infrastructure and the new technical architecture to ensure the security of payment transactions and procedures as regards customer identification.

4.9 The EESC believes that in reality the digital euro will involve a high degree of privacy protection. Although the time frame has not yet been pinned down exactly, it is very important to make careful preparations at this stage. In addition, the EESC notes that when issuing a digital euro, the ECB will take all AML/CFT requirements into account, but that this does not mean that the ECB itself will do the KYC (know-your-customer) checks; these could be done, for instance, by supervised entities, depending on the design of the digital euro.

4.10 The EESC believes that the assessment of national sovereignty as well as the impact on the European banking system will also be important. Although the entire European payment system is currently not completely uniform, it is a great advantage that it is accessible to both natural and legal persons. Up to now, and since the global financial crisis, it has been relatively efficient, stable and secure.

4.11 The EESC calls for the completion of the Banking Union. A complete and genuine Banking Union would be beneficial to further strengthen the resilience and uniformity of the European banking sector. This is also crucial and beneficial in the light of a potential digital euro.

4.12 The EESC points out that commercial banks in euro area countries currently benefit from favourable conditions for payment transactions. Against this backdrop, the commercial banks and other institutions in the financial sector, including institutions providing payment services, would be expected to cooperate intensively with the ECB in the design and introduction of the digital euro.

4.13 The introduction and implementation of CBDCs in euro area countries will need to take into account at least the following, very important, aspects:

i) when adopting the digital euro as the basic means of payment, the option of carrying out payment transactions in cash will still need to be available;
ii) the need for the digital euro to be usable and accessible within the euro area, and potentially also abroad; and,
iii) the digitalisation process should mean that the digital euro can be used in transactions under the new conditions that did not exist for cash payments.

4.14 The EESC expects that the ECB is preparing and is set to implement a range of measures aimed at introducing a digital euro, in accordance with the time frame adopted. In addition, it stresses

the need for very close cooperation when it comes to ensuring a high degree of payment system interconnection, not only within the euro area Member States, but also with other central banks around the world and with relevant monetary-financial institutions, which will also provide the necessary technical assistance.

4.15 The introduction of a digital euro will require a whole set of substantive and systemic conditions to be put in place to ensure that it functions effectively. As this will affect all citizens of the euro area Member States, including the Member States of the EU, there is a clear need for civil society, research and academia to be included in the next stages of discussions on adopting and introducing a digital euro.

Brussels, 26 October 2022

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